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SUBJECT: MND-C ECONOMIC SITUATION: A VIEW FROM MND-C POLAD

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11. SENSITIVE BUT UNCLASSIFIED -- ENTIRE TEXT.

12. (SBU) SUMMARY. In the Multi-National Division Center (MND-C) area of responsibility (AOR) improved security, the return of stability and normalcy, the emergence of economic activity and our increasing ability to engage with Iraqis have combined to create a window of opportunity to generate sustainable jobs, income and economic growth. However, maintaining positive momentum will be a challenge as Commander's Emergency Response Program (CERP) and USG civilian agency funding shortfalls constrain our ability to continue both local reconstruction projects and micro grants programs to spur local economic activity. Government of Iraq (GOI) funding processes are not yet efficient enough to compensate. Transitioning from security and stability operations to building government capacity at the nahiya, qada and provincial level is crucial. With the passage of the 2008 national budget, substantial new funding will be allocated to the provinces in the MND-C AOR (Baghdad, Babil, Wasit, Karbala and Najaf). Provincial level governments must demonstrate that they can execute their budgets to complete sorely needed reconstruction and infrastructure projects and to provide basic services.

3 (SBU). MND-C has effectively used micro grants to kick start local economic activity; however, this nascent economic activity may not be sustainable without access to credit resources that can offer loans at reasonable interest rates. The need for USG civilian agency resources and expertise is increasing as are opportunities for private sector investment, particularly in industrial, agricultural and tourism enterprises. We are at the front edge of reestablishing vocational training facilities in the MND-C AOR but much greater effort and resources will be needed in this area to prepare Iraqis to rejoin the civilian workforce.

A concerted national and provincial level effort to enact policies, direct resources and support initiatives such as &Buy Iraqi First8 to capitalize on ongoing business development and to encourage private investment appears to be lacking. MND-C Commanders are concerned that without continued emphasis and resources directed at developing long-term, sustainable economic growth that this window of opportunity may close. Of particular concern is the transition of Sons of Iraq from their current security roles to the civilian workforce. END SUMMARY.

MND-C AOR) ECONOMIC DEVELOPMENT HURDLES

14. (SBU) MND-C,s AOR consists of the southern rural districts of Baghdad (Mahmoudiyah and Madain qadas), Babil, Wasit, Karbala and Najaf provinces. Farmland makes up 70% of the MND-C, with the land between the Tigris and Euphrates

Rivers renowned for its fertility. However, Saddam era policies, wars and neglect have set the agribusiness sector back twenty years. Many other factors exist that inhibit economic development throughout the area: provision of basic services such as drinking water, sewer, electricity, and fuel is inconsistent; infrastructure such as water pumps, irrigation canals, water treatment plants, electrical substations and power lines is insufficient, damaged and/or destroyed; formulation and execution of government budgets is halting and slow; existing state run enterprises are non-operational or only in the beginning stages of revitalization; there is insufficient investment into the private sector and credit resources are lacking. As a result, unemployment and underemployment rates are high. Currently, the largest single employers in the MND-C AOR are the GOI (both security forces and civilian workers) and the U.S. military (through the Sons of Iraq security program).

SECURITY IMPROVING

¶5. (SBU) MND-C's relentless pursuit of the enemy, combined with more capable Iraqi Security Forces (ISF) and bolstered by Sons of Iraq (SOI) has created security conditions that allow for a return to normalcy/stability in virtually the entire MND-C AOR. MND-C forces live among the population on 56 patrol bases and combat outposts throughout the MND-C AOR providing security and bringing stability to local communities. Joint operations between MND-C and ISF are increasing with ISF often taking a lead role. SOIs operate in their local communities manning check points, providing intelligence that has led to the capture of nearly 500 insurgents and locating and turning-in weapons caches and IEDs. Since June 2007, attacks in the MND-C AOR have decreased by 77%. Civilian casualties have decreased by 61%, MND-C casualties have decreased 67% and Iraqi security force casualties have decreased 87%. During the final week of February MND-C forces did not suffer a single casualty) a

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significant milestone.

¶6. (SBU) As a result of the improved security environment, MND-C soldiers and embedded Provincial Reconstruction Teams (ePRT) and Provincial Reconstruction Team (PRT) members are able to regularly operate in local communities developing and strengthening relationships with Iraqi citizens, business organizations, agricultural unions, governing councils and tribal sheiks. &Security can no longer be used as an excuse not to conduct business in the MND-C AOR.8

CERP

¶7. (SBU) To stabilize communities, spur reconstruction and kick start local economic activity, MND-C forces have utilized Commander's Emergency Response Program (CERP) funds throughout the MND-C AOR. CERP has funded humanitarian assistance, community clean-up, reconstruction (government buildings, schools, medical facilities, water treatment facilities, water pumping stations) canal cleaning, road maintenance, bridge repairs, market development, training opportunities and quality of life projects (athletic fields, parks), etc. MND-C has initiated over 1200 CERP projects, infusing \$137 million into the economy and has paid out nearly \$750,000 in micro grants for small business start-ups. In many Iraqi communities throughout MND-C AOR, MND-C soldiers are seen as effective agents of reconstruction and assistance. CERP funds also pay the salaries of over 35,000 SOIs in the MND-C AOR - \$11 million per month. Not only has the SOI program improved security and made Iraqis feel safer in their own communities; it also provides jobs and incomes for military aged males, and an infusion of cash into these communities.

¶8. (SBU) MND-C soldiers and interagency ePRT/PRTs have successfully MND-C soldiers and interagency ePRT/PRTs have successfully developed and implemented reconstruction

projects and programs in cities, towns and villages throughout the MND-C AOR utilizing CERP funds. In Jurf As Sakhr, a town that had once been an Al Queda stronghold, MND-C soldiers secured the town and established a local patrol base. USAID representatives in the local ePRTs were then able to launch a program to identify and train local merchants and craftsmen, assist in the development of business plans and then provided \$14,000 in micro grants that financed the establishment of forty-five small businesses. In Salman Pak, MND-C soldiers routed Al-Queda and then rebuilt the local governance center, a medical facility, schools and a marketplace. After almost five years of having to operate in another town, the Madain qada council was able to return to its traditional seat in Salman Pak. MND-C has worked in conjunction with Iraqi government entities throughout the area to repair pump stations and clean irrigation canals. While there is still work to do, water flow has been reestablished in much of the irrigation system, resulting in irrigation water reaching large swaths of farmland. Where water flow has been restored farmers are plowing fields, planting crops and vegetables and raising livestock. However, CERP and other USG funding limitations will constrain our ability to execute these types of local reconstruction projects and micro grant programs; while GOI funding processes are not yet efficient enough to compensate.

CAPACITY BUILDING AND BUDGET EXECUTION

¶9. (SBU) Per Operation Marne Fortitude II launched on January 1, 2008, MND-C is endeavoring to increase the capacity of provincial governments, strengthen Iraqi Security Forces and create economic growth while maintaining the security gains from the force surge. MND-C's transition from stability operations to capacity building is currently underway. MND-C and the ePRT/PRTs are engaging nahiya, qada and provincial departments and councils throughout the AOR. USAID's Local Governance Program provides training and guidance and continues to assist with strengthening linkages between levels of government. With the passage of the 2008 national budget, substantial new funding will be allocated to the provinces in the MND-C AOR (Baghdad, Babil, Wasit, Karbala and Najaf). In February, Ambassador Crocker directed PRTs that "Improving budget execution must be our top priority this year." MND-C soldiers will support this effort by facilitating engagements between USG and GOI government officials. Additionally, MND-C units continue to gather detailed information on local communities, infrastructure needs and reconstruction projects. MND-C is providing this information to nahiya, qada and provincial departments and councils to assist in budget planning and execution.

NEED FOR CREDIT

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¶10. (SBU) MND-C has effectively used micro grants to spur local economic activity, focusing on small businesses and retail stores. The demand for grants is increasing and some recipients are beginning to request additional grants to expand their businesses or open additional businesses. In Yusufiyah, a local businessman sought a \$300,000 loan to upgrade and expand an existing community produce, electronics and general merchandise market. The USG has no assistance program loans of this magnitude or nor does the Government of Iraq loan programs operating in our AOR, therefore we cannot direct Iraqis to them. USAID representatives have informed us that current USAID Izdihar loan programs will continue to operate but will not receive additional funding as USAID transitions to the Provincial Economic Growth program. To bridge this gap, USAID representatives operating in MND-C AOR ePRTs/PRTs have offered to explore the possibility of utilizing QRF as capital to set up micro loan programs at local Iraqi institutions. Without better access to credit at reasonable financing rates, the economic activity already generated may not be sustainable. (EMBASSY COMMENT: USAID

Izdihar's current loan programs will have sufficient operating expenses and loan capital to continue operating efficiently for 3 to 6 months after Izdihar ends on March 31, 2008. USAID's new private sector development project, Tijara or PEG, will assume technical oversight of the micro-finance institutions (MFIs) after Izdihar ends, including provision of additional loan capital to the MFIs. However, given the high demand for micro-loans throughout the country and the questions surrounding the availability of funds for Tijara, USAID is encouraging PRTs/ePRTs to communicate the microfinance needs of their areas of responsibility to Tijara and consider utilizing QRF funds to provide loan capital and operating expenses to existing and new MFIs. END EMBASSY COMMENT.)

ECONOMIC DEVELOPMENT EMERGING

11. (SBU) Iraqi farmers, sheiks, business people, government officials and even religious leaders throughout the MND-C AOR are reaching out to senior MND-C and USG officials to affirm that they are ready to accept increased USG economic development assistance. The need for USG civilian agency assistance, resources and expertise is increasing as are opportunities for private sector investment, particularly in industrial, agricultural and tourism enterprises that are emerging in the MND-C AOR.

12. (SBU) Two industrial complexes appear to be on the verge of major breakthroughs in productivity and job creation. At the Iskandariyah Industrial Complex (IIC), once moribund state owned automotive and mechanical industries are back in business. After investment by the Task Force for Business and Stability Operations (TF BSO) to purchase equipment and tractor kits, MND-C soldiers, ePRT business development specialists and TF BSO industry and marketing professionals worked alongside Iraqi plant managers on a daily basis to get the complex back in operation. IIC is now producing tractors, buses, dump trucks, container housing units and oil refinery components and other production lines are under development. Finalizing several major business contracts currently under discussion would provide the impetus for a substantial increase in utilization and employment. In Nahrwan, privately owned and operated brick making facilities have been restarted and are producing millions of bricks per week. Since January employment has increased from 1500 to 3500 at the complex. Plans to expand from 120 kilns to 180 kilns are under consideration by the local brick makers, which could increase employment to 10,000.

13. (SBU) Also at the IIC VOTECH seven technical classes are being run and enrollment has increased from 23 students in December to over 400 in March. USAID's Community Stabilization Program (CSP) representatives are working with the VOTECH to provide stipends to students. Under current projections, enrollment is expected to increase to over 1000 by July. Recently CSP representatives informed us that a major U.S. contracting firm operating in Iraq is considering hiring up to 5000 Iraqis nationwide and could utilize the IIC VOTECH as a training site. (EMBASSY COMMENT: It is not correct to assume that all of these individuals would train only through the Iskandariyah VoTech. They could be trained at any of the other CSP VoTech sites. It is also unclear what positions KBR is seeking to fill and whether MoLSA's VoTechs even teach the skills KBR is looking for. END EMBASSY COMMENT.)

14. (SBU) Sustainable agricultural development is critical to MND-C AOR's economic well-being. MND-C along with

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provincial governments continues to repair and improve water pumps and irrigation canals. MND-C and ePRT/PRT members are encouraging local farmers to form agriculture associations to give the farmers a collective voice and facilitate consistent access to seed, fertilizer and pesticides. Mahmoudiyah

poultry farmers and ePRT/PRT agribusiness experts conducted a detailed assessment of the poultry industry and hatched a plan to revitalize this industry that included the repair of hatcheries, feed mills and a processing plant. In Babil, PRT and USAID INMA representatives along with Iraqi owners of the Euphrates Fish Farm have studied the potential of the fish farm industry in North Babil and spawned a plan to revitalize several fish farms in the area.

¶15. (SBU) Najaf,s and Karbala,s importance as centers for Shia religion and culture is attracting increasing numbers of tourists as the security environment improves. In January, the Ashura commemoration attracted 2 million visitors to Najaf, while in February, over 6 million pilgrims made their way to Karbala. Even without these major annual events, religious-based tourism continues to grow in Najaf and Karbala. In Babil, the historical significance of the Ruins of Babylon also has the potential to attract large numbers of tourists. However, Najaf, Karbala and Babil currently lack modern infrastructure, hotel space and other modern amenities to support international tourism. Najaf is taking an important step in its plans to develop and construct an airport. MND-C does not have significant troop presence in either Najaf or Karbala (both have achieved Provincial Iraqi Control status). Najaf and Karbala PRTs are often the lead USG presence in these provinces, but are currently working out of REO Hilla in Babil province. MND-C is constructing office and housing facilities in Najaf and Karbala provinces so the PRT members can live, work and conduct engagements directly in these provinces.

SUPPORT NEEDED TO MAKE IT SUSTAINABLE

¶16. (SBU) A concerted national and provincial level effort to enact policies, direct resources and support initiatives such as &Buy Iraqi First8 to capitalize on ongoing business development and to encourage private investment appears to be lacking. Currently, the IIC,s major customers are Iraqi ministries and provincial level governments. Sealing potential deals with the Ministry of Interior to conduct vehicle maintenance and with the Babil provincial government to produce 1300 tractors would provide the impetus for major growth and significant increases in employment. In Nahrwan, damage to an electric substation and inconsistent electrical power supply through the national grid often results in lack of electricity to power the brick kilns during manufacturing periods. Resolving this power issue would support major expansion plans; however, thus far no government efforts to repair the electrical substation have been initiated. Working with ITAO Electric, MND-C is seeking to promote a special power district to improve electricity availability to the private brick factories. In the Agriculture sector there does not yet appear to be a national plan to develop agribusiness capacity. Provincial level officials in Babil seemed surprised recently when MND-C requested that they share the costs of refurbishing the Hillah Cold Storage facility, which has been identified in the National Development Strategy as a key agribusiness node.

¶17. (SBU) In Agriculture sector, ePRTs/PRTs and local USAID representatives are stepping in to fill the void with detailed assessments and plans for revitalizing the poultry and fish farm industries. However, only one agriculture project out of more than 50 submitted in the MND-C AOR has been funded by INMA. In Najaf, the airport project is proceeding but waiting for the USG contracting system to hire an airport consultant to ensure that the airport meets ICAO standards. Attracting foreign investment and operational management expertise would help, but thus far foreign investor interest has been tentative. (EMBASSY COMMENT. The number of job orders received from Hillah/Babel is 11 not 50. Two (not one) are underway and third (bee-keepers) is being consolidated with others for a national program. Inma is planning a joint campaign with the military that will broaden Inma participation in the area. The text in the cable may have been written before the planning meeting USAID had with General Lynch's staff a couple of days ago. Inma will be

doing much more than the fish farm near Hillah. END COMMENT.)

SOIs) A DOUBLE EDGED SWORD

¶18. (SBU) MND-C Commanders are concerned that without continued emphasis and resources directed at developing

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long-term, sustainable economic growth that this window of opportunity may close. Of particular concern is the transition of Sons of Iraq from their current security roles to the civilian workforce. If we are not able to transition SOIs from security roles to the civilian workforce, the security improvements and goodwill gained may evaporate. The Joint Technical Education and Reintegration Program (JTERP) and Civil Service Corp programs received \$155 million in DDR funds to assist in transitioning SOIs to civilian employment and the GOI has also committed to transitioning approximately 25 percent of SOIs to positions in Iraqi Security Forces. However, despite the presence of the JTERP/DDR programs and the GOI commitment, few SOIs in the MND-C AOR have been successfully moved from their SOI roles to the civilian workforce. Developing a sound, self-sustaining economy that can create jobs and opportunities is crucial.

CROCKER